

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Port Sanilac	County Sanilac
Fiscal Year End June 30, 2006	Opinion Date August 9, 2006	Date Audit Report Submitted to State October 26, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

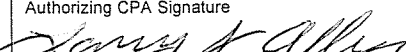
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC		Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue		City Port Huron	State MI
		Zip 48060	
Authorizing CPA Signature 	Printed Name Larry J. Allen		License Number 1101008117

VILLAGE OF PORT SANILAC
Sanilac County, Michigan

ANNUAL FINANCIAL REPORT
and Supplementary Information

FOR THE YEAR ENDED
JUNE 30, 2006

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



VILLAGE OF PORT SANILAC, MICHIGAN

TABLE OF CONTENTS JUNE 30, 2006

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Assets – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Assets – Fiduciary Funds	20
Combining Statement of Net Assets – Component Units	21
Combining Statement of Activities – Component Units	22
Notes to the Basic Financial Statements	24
Required Supplementary Information:	
General Fund – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	41
Major Street Fund – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	42

VILLAGE OF PORT SANILAC, MICHIGAN

TABLE OF CONTENTS

JUNE 30, 2006

	<u>Page Number</u>
Supplementary Information:	
Combining and Individual Fund Statements and Schedules:	
Nonmajor Governmental Funds –	
Combining Balance Sheet	43
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	44
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	
Local Street Fund	45
County Road Fund	46
South Ramp Fund	47
Bark Shanty Community Center	48
 Fiduciary Fund –	
Statement of Changes in Assets and Liabilities	49

INDEPENDENT AUDITOR'S REPORT

To the President and
Members of the Village Council
Village of Port Sanilac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Port Sanilac, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Port Sanilac's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Village of Port Sanilac, Michigan prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Port Sanilac, Michigan as of June 30, 2006, and the respective changes in financial position-modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 9, 2006, on our consideration of the Village of Port Sanilac's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of our testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9, and schedules of budgetary comparisons on pages 41 and 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Port Sanilac, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

August 9, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Village of Port Sanilac's annual financial report presents the Village's financial performance during the fiscal year that ended on June 30, 2006 with the limitations of the Village's modified cash basis of accounting. Please read it in conjunction with the Village's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

The Village's total revenues exceeded total expenses on the modified cash basis of accounting by \$96,790 for the year, resulting in an increase in total net assets of 5.0 percent over the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Report Components –

The annual report consists of four parts as follows:

Basic Financial Statements

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities (on pages 10-12) provide information about the activities of the Village government-wide and present a longer-term view of the Village's finances.

Fund Financial Statements: Fund financial statements (starting on page 13) focus on the individual parts of the Village government. Fund financial statements also report the Village's operations in more detail than the government-wide statements by providing information about the Village's most significant ("major") funds. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. For proprietary activities, these statements offer short-term and long-term financial information about the activities the Village operates like businesses, such as the water, sewer, and trash services.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management's Discussion and Analysis and the General fund Budgetary Comparison Schedule (starting on page 41) represent financial information required by GASB to be presented. Such information provide users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

Other Supplementary Information: This part of the annual report (starting on page 43) includes optional financial information such as combining statements for nonmajor funds (which are added together and shown in the fund financial statements in a single column) and budget comparisons for special revenue funds. This other supplemental financial information is provided to address certain specific needs of various users of the Village's annual report.

Basis of Accounting

The Village has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the Village's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Village as a Whole

The Villages Reporting Entity Presentation

The annual report includes all activities for which the Village Council is fiscally responsible. These activities defined as the Village's reporting entity, are operated as the primary government and other separate legal entities that are included as component units.

The Government-Wide Statement of Net Assets and the Statement of Activities

Our financial analysis of the Village as a whole begins on page 10. The government-wide financial statements are presented on pages 10-12. One of the most important questions asked about the Village's finances is, "is the Village as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Village as a whole and about its activities in a way that helps answer this question. These statements include all of the Village's assets and liabilities resulting from the use of the modified cash basis of accounting.

These two statements report the Village's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the Village's net assets the difference between assets and liabilities as one way to measure the Village's financial health or financial position. Over time, increases or decreases in the Village's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Village's sales tax base and the condition of the Village's roads, to assess the overall health of the Village.

In the Statement of Net Assets and the Statement of Activities, we divide the Village into three kinds of activities:

- *Governmental activities.* Most of the Village's basic services are reported here, including the police, fire, general administration, streets, parks and recreation. Property taxes, fees, and state funds finance most of these activities.
- *Business-type activities.* The Village charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Village's water, sewer, and sanitation systems are reported here.

- *Component units.* Although separate, the Downtown Development Authority and Port Authority (Harbor) are important because the Village is financially accountable for them. Separate financial statements are not issued for the component units; they are included in the financial statements as discrete columns.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds; not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Village Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Village has three kinds of funds:

- **Governmental funds** – Most of the Village's basic services are reported in governmental funds (all funds except water, sewer, trash, and internal service), which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using the current financial resources measurement focus which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Village's general government operations and the basic services it provides. We describe the relationship (or difference) between governmental activities and governmental funds in reconciliation schedules (Statement of Net Assets and Statement of Activities) on pages 14 and 16.
- **Proprietary Funds** – Proprietary Funds use the economic resources measurement focus, which is the same type used by private business. The Village maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for the activities of the water, sewer, and trash services.

Internal Service Funds are an accounting device used to accumulate and allocate cost internally among the Village's various functions. The Village uses an internal service fund to account for the activities of its special equipment fund.

Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary financial statements provide separate information for the water, sewer, and trash funds, which are considered major funds of the Village. The Village's Internal service fund is presented in the proprietary fund financial statements in the governmental activities – Internal Service Fund column.

- **Fiduciary Funds** – Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Village's own programs. The accounting used for the fiduciary fund is much like that used for proprietary funds.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Net Assets – Modified Cash Basis –

The Village's combined net assets are \$2,025,581. Our analysis below focuses on the net assets (Table 1) of the Village's governmental and business-type activities.

Table 1

Net Assets (Modified Cash Basis) of Governmental and Business-type Activities

	Governmental Activities		Business-type Activities		Total Government	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 121,028	\$ 335,158	\$ 475,913	\$ 473,749	\$ 596,941	\$ 808,907
Capital Assets – net	<u>626,210</u>	<u>364,344</u>	<u>2,763,101</u>	<u>2,759,313</u>	<u>3,389,311</u>	<u>3,123,657</u>
Total Assets	<u>747,238</u>	<u>699,502</u>	<u>3,239,014</u>	<u>3,233,062</u>	<u>3,986,252</u>	<u>3,932,564</u>
Long-term debt outstanding	21,743	7,331	1,916,206	1,996,206	1,937,949	2,003,537
Other liabilities	<u>2,486</u>	<u>-</u>	<u>20,236</u>	<u>236</u>	<u>22,722</u>	<u>236</u>
Total liabilities	<u>24,229</u>	<u>7,331</u>	<u>1,936,442</u>	<u>1,996,442</u>	<u>1,960,671</u>	<u>2,003,773</u>
Net Assets:						
Invested in capital assets, net of debt	614,377	364,344	846,895	763,107	1,461,272	1,127,451
Restricted	-	-	565,960	537,143	565,960	537,143
Unrestricted	<u>108,632</u>	<u>327,827</u>	<u>(110,283)</u>	<u>(63,630)</u>	<u>(1,651)</u>	<u>264,197</u>
Total Net Assets	<u>\$ 723,009</u>	<u>\$ 692,171</u>	<u>\$ 1,302,572</u>	<u>\$ 1,236,620</u>	<u>\$ 2,025,581</u>	<u>\$ 1,928,791</u>

Governmental Activities –

Governmental activities for the Village include five major activities: General Government, Public Safety, Public Works Parks/Recreation, and Debt Service. General government includes the Legislative, Administrative, and Clerk departments. Public safety includes the police and fire departments. Public works includes primarily the Department of Public Works and building and maintenance of the major and local roads. The Village's Parks and Recreation department, South Ramp, and Bark Shanty Community Center comprise the Parks/Recreation activity.

The largest revenue for governmental activities is the general operating property tax.

State shared revenue was \$47,606 for 2006. The State of Michigan collects sales tax and redistributes a portion of these collections to local jurisdictions. State revenue sharing is a major source of revenue for the Village. It is somewhat volatile since it fluctuates with the economy and the legislature's appropriation.

To assist in maintenance and repair of the road system, the Village receives Michigan Transportation Fund money that accounted for \$51,072 listed under program revenues. This money varies from year to year based on state revenues at the gasoline pumps.

Table 2 below presents the cost of each of the Village programs; general government, public safety, public works and recreation and cultural, and each program's net cost. The net cost shows the financial burden that was placed on the Village's general fund (supported by property tax and State shared revenue) by each of these functions.

Table 2

Governmental Activities

	Total cost of Services		Net Cost of Services	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General Government	\$ 139,062	\$ 117,976	\$ 127,675	\$ 109,695
Public Safety	168,817	170,140	12,003	114,186
Public Works	190,221	193,402	91,173	135,886
Recreation and Cultural	38,304	20,715	38,299	19,715
Debt Service	<u>309</u>	<u>-</u>	<u>309</u>	<u>-</u>
Totals	<u>\$ 536,713</u>	<u>\$ 502,233</u>	<u>\$ 269,459</u>	<u>\$ 379,482</u>

Business-type Activities

The Village has three business-type activities – water, sewer and trash. Revenues of these activities (see Table 3) increased net assets by \$65,952.

Table 3

Changes in Net Assets of Business-type Activities

	<u>2006</u>	<u>2005</u>
Revenues –		
Charges for Services	\$ 310,847	\$ 342,928
Other	<u>122,266</u>	<u>68,111</u>
Total Revenues	433,113	411,039
Expenses –		
Water, sewer, trash	<u>367,161</u>	<u>430,549</u>
Net operating income	65,952	(19,510)
Transfers	<u>-</u>	<u>(25,000)</u>
Increase in Net Assets	<u>\$ 65,952</u>	<u>\$(44,510)</u>

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

As the Village completed the year, its general governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$46,337.

General Fund Budgetary Highlights

There were no amendments by the Village Council to the original budget passed in June 2005. Even though the budget is passed by the Village Council prior to the beginning of the fiscal year, all expenditures are reviewed and approved as they occur through out the year. During the budget process the Council discusses major projects proposed for the upcoming year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the Village had a book value of \$3,389,311 invested in a broad range of capital assets, including police, fire and DPW equipment, buildings, park facilities, roads, and water and sewer lines. Refer to Table 4 below for a schedule showing the Capital Assets at year ended June 30, 2006 for both the Governmental and the Business-type activities. There is also a total column for the Total Primary Government.

Table 4

Capital Assets at Year End (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land and land improvements	\$ 12,000	\$ 12,000	\$ -	\$ -	\$ 12,000	\$ 12,000
Construction in progress	-	-	79,695	-	79,695	-
Buildings & Improvements	196,840	194,300	-	-	196,840	194,300
Machinery & Equipment	110,585	53,185	17,171	8,041	127,756	61,226
Vehicles	178,960	33,573	-	-	178,960	33,573
Improvements other than buildings	12,568	13,286	-	-	12,568	13,286
Streets	115,257	58,000	-	-	115,257	58,000
Water & Sewer Systems	-	-	<u>2,666,235</u>	<u>2,751,272</u>	<u>2,666,235</u>	<u>2,751,272</u>
	<u>\$ 626,210</u>	<u>\$ 364,344</u>	<u>\$ 2,763,101</u>	<u>\$ 2,759,313</u>	<u>\$ 3,389,311</u>	<u>\$ 3,123,657</u>

The major additions to capital assets were a fire truck for \$157,000, street improvements for \$63,323, and a sewer lagoon project that was started with costs as of June 30, 2006, totaling \$79,695.

Debt

At year end the Village had a \$1,916,206 obligation to the State of Michigan through participation in the Drinking Water Revolving Fund through which the Department of Environmental Quality Bonds have been sold in the amount of \$2,076,206.

The Village also signed a promissory note during 2006 for \$13,000 for Village Hall improvements. The balance as of June 30, 2006 is \$11,833.

More detailed information about the Village's long-term liabilities is presented in Note 6 of the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Village of Port Sanilac is primarily a resort community located in Sanilac County, Michigan. The Village is on Lake Huron and is in proximity to the Detroit metropolitan area with several major roadways, including Interstate Highway 94.

In fiscal year 2006, the general fund had a shortage of \$224,976, resulting in a deficit fund balance of \$88,308. The general fund deficit is primarily the result of the purchase of a fire truck financed by borrowing money from the sewer fund. The deficit will be reduced as payments are made on the advance and as revenue is received for the purchase of the truck from other participating municipalities. The Village relies heavily on property taxes and operated at the state-authorized tax rate limit after application of Proposal A and Headlee.

The Village has adopted a balanced budget for fiscal year 2007. The Village's elected and appointed officials considered many factors when setting the 2007 budget, including tax rates and fees that will be charged for the Village's activities. The expenditures budgeted for the 2007 general fund increased \$91,800 from fiscal year 2006. The revenue from property taxes for the general fund was budgeted at \$193,000, an increase of \$15,888 or 9.0%. The Village is also in the process of constructing a lagoon. The lagoon project will be financed through the issuance of bonds.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village by mail at 46 N. Ridge Street, P.O. Box 328, Port Sanilac, MI 48469 or by phone at 810-622-9963.

BASIC FINANCIAL STATEMENTS

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

JUNE 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 239,894	\$ 169,455	\$ 409,349	\$ 97,399
Investments	35,443	143,614	179,057	46,643
Due from state	8,433	-	8,433	-
Accounts receivable	102	-	102	-
Internal balances	(162,844)	162,844	-	-
Due from primary government	-	-	-	2,722
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	12,000	79,695	91,695	37,000
Assets being depreciated	614,210	2,683,406	3,297,616	751,202
Total Assets	<u>747,238</u>	<u>3,239,014</u>	<u>3,986,252</u>	<u>934,966</u>
LIABILITIES:				
Due to component units	2,486	236	2,722	-
Due to other governmental units	-	-	-	4,900
Deposits payable	-	20,000	20,000	-
Non-current liabilities				
Due within one year	2,418	85,000	87,418	-
Due in more than one year	19,325	1,831,206	1,850,531	2,780
Total Liabilities	<u>24,229</u>	<u>1,936,442</u>	<u>1,960,671</u>	<u>7,680</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	614,377	846,895	1,461,272	788,202
Restricted				
Debt Service	-	57,823	57,823	-
Acquisition/construction of capital assets	-	508,137	508,137	-
Unrestricted	<u>108,632</u>	<u>(110,283)</u>	<u>(1,651)</u>	<u>139,084</u>
Total Net Assets	<u>\$ 723,009</u>	<u>\$ 1,302,572</u>	<u>\$ 2,025,581</u>	<u>\$ 927,286</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 139,062	\$ 11,387	\$ -	\$ -
Public Safety	168,817	81,542	4,022	71,250
Public Works	190,221	1,300	97,748	-
Recreation and Culture	38,304	5	-	-
Debt Service	309	-	-	-
Total governmental activities	<u>536,713</u>	<u>94,234</u>	<u>101,770</u>	<u>71,250</u>
Business type activities:				
Water	186,449	187,670	-	42,730
Sewer	92,370	45,564	-	-
Trash	88,342	77,613	-	-
Total business type activities	<u>367,161</u>	<u>310,847</u>	<u>-</u>	<u>42,730</u>
Total Primary Government	<u>903,874</u>	<u>405,081</u>	<u>101,770</u>	<u>113,980</u>
Component Units				
Downtown Development Authority	52,338	-	6,665	-
Port Authority (Harbor)	<u>426,331</u>	<u>395,608</u>	<u>38,544</u>	<u>-</u>
Total Component Units	<u>478,669</u>	<u>395,608</u>	<u>45,209</u>	<u>-</u>

General revenues:

- Property taxes - primary government
- Property taxes - DDA
- Grants and contributions not -
restricted to specific programs
- Unrestricted investment income
- Gain on sale of equipment
- Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Prior period adjustment

Net assets at beginning of year, restated

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government		Total	Component Units
Governmental Activities	Business Type Activities		
\$ (127,675)	\$ -	\$ (127,675)	\$ -
(12,003)	-	(12,003)	-
(91,173)	-	(91,173)	-
(38,299)	-	(38,299)	-
(309)	-	(309)	-
(269,459)	-	(269,459)	-
-	43,951	43,951	-
-	(46,806)	(46,806)	-
-	(10,729)	(10,729)	-
-	(13,584)	(13,584)	-
(269,459)	(13,584)	(283,043)	-
-	-	-	(45,673)
-	-	-	7,821
-	-	-	(37,852)
224,937	73,375	298,312	-
-	-	-	70,124
47,606	-	47,606	-
16,754	6,161	22,915	854
11,000	-	11,000	-
300,297	79,536	379,833	70,978
30,838	65,952	96,790	33,126
692,171	1,236,620	1,928,791	872,160
-	-	-	22,000
692,171	1,236,620	1,928,791	894,160
\$ 723,009	\$ 1,302,572	\$ 2,025,581	\$ 927,286

VILLAGE OF PORT SANILAC, MICHIGAN

BALANCE SHEET - MODIFIED CASH BASIS GOVERNMENTAL FUNDS JUNE 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets:				
Cash and cash equivalents	\$ 33,844	\$ 19,729	\$ 118,340	\$ 171,913
Investments	-	17,955	10,756	28,711
Due from state	-	5,384	3,049	8,433
Due from other funds	<u>37,954</u>	<u>-</u>	<u>620</u>	<u>38,574</u>
	.	.		
Total Assets	<u><u>\$ 71,798</u></u>	<u><u>\$ 43,068</u></u>	<u><u>\$ 132,765</u></u>	<u><u>\$ 247,631</u></u>
Liabilities:				
Due to other funds	\$ 620	\$ -	\$ 14,148	\$ 14,768
Due to component unit	2,486	-	-	2,486
Advance from other funds	<u>157,000</u>	<u>-</u>	<u>27,040</u>	<u>184,040</u>
Total Liabilities	<u>160,106</u>	<u>-</u>	<u>41,188</u>	<u>201,294</u>
Fund Balances (Deficit):				
Unreserved -				
Undesignated -				
General Fund	(88,308)	-	-	(88,308)
Special Revenue Funds	<u>-</u>	<u>43,068</u>	<u>91,577</u>	<u>134,645</u>
Total Equity (Deficit)	<u>(88,308)</u>	<u>43,068</u>	<u>91,577</u>	<u>46,337</u>
Total Liabilities and Fund Equity	<u><u>\$ 71,798</u></u>	<u><u>\$ 43,068</u></u>	<u><u>\$ 132,765</u></u>	<u><u>\$ 247,631</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS - MODIFIED CASH BASIS JUNE 30, 2006

Fund Balances - total governmental funds	\$	46,337
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets		1,167,513
Accumulated depreciation	(571,064)
Internal Service Fund used by management to charge costs of the Village's motor pool activities. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
		101,966
Long - term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Notes payable	(11,833)
Accrued compensated absences	(9,910)
Net Assets of governmental activities	\$	<u>723,009</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	General	Major Street	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 174,650	\$ -	\$ 50,287	\$ 224,937
Intergovernmental -				
Federal/State	122,878	32,608	18,464	173,950
Local	17,650	2,805	43,871	64,326
Charges for services	48,924	-	-	48,924
Fines and forfeits	7,396	-	-	7,396
Interest and rent	7,000	1,148	8,606	16,754
Other	20,137	58	69	20,264
Total Revenues	<u>398,635</u>	<u>36,619</u>	<u>121,297</u>	<u>556,551</u>
Expenditures:				
Current -				
General Government	140,510	-	-	140,510
Public Safety	380,601	-	-	380,601
Public Works	118,492	72,197	49,068	239,757
Recreation and Cultural	6,532	-	30,144	36,676
Debt Service	1,476	-	-	1,476
Total Expenditures	<u>647,611</u>	<u>72,197</u>	<u>79,212</u>	<u>799,020</u>
Revenues over (under) expenditures	<u>(248,976)</u>	<u>(35,578)</u>	<u>42,085</u>	<u>(242,469)</u>
Other Financing Sources (Uses):				
Note proceeds	13,000	-	-	13,000
Gain on sale of equipment	11,000	-	-	11,000
Transfers in	-	50,000	2,500	52,500
Transfers out	-	-	(52,500)	(52,500)
Total Other Financing Sources (Uses)	<u>24,000</u>	<u>50,000</u>	<u>(50,000)</u>	<u>24,000</u>
Net Change in Fund Balance	<u>(224,976)</u>	<u>14,422</u>	<u>(7,915)</u>	<u>(218,469)</u>
Fund Balances at beginning of year	<u>136,668</u>	<u>28,646</u>	<u>99,492</u>	<u>264,806</u>
Fund Balances (Deficit) at end of year	<u><u>\$ (88,308)</u></u>	<u><u>\$ 43,068</u></u>	<u><u>\$ 91,577</u></u>	<u><u>\$ 46,337</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS JUNE 30, 2006

Net change in fund balances - total governmental funds	\$(218,469)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	300,476
Depreciation expense	(35,129)
<p>The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net assets.</p>	
Proceeds from issuance of note	(13,000)
Principal payments on long-term liabilities	1,167
<p>Internal service funds used by management to charge costs of the Village's motor pool activities. The net revenues (expenses) attributable to the fund is reported with governmental activities.</p>	
	(1,628)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds</p>	
Increase in accrued compensated absences	(2,579)
Change in net assets of governmental activities	<u>\$ 30,838</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS PROPRIETARY FUNDS JUNE 30, 2006

	Business Type Activities-Enterprise Funds				Governmental Activities Internal Service Fund
	Water	Sewer	Trash	Total	
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$ 63,278	\$ 92,294	\$ 13,883	\$ 169,455	\$ 67,981
Investment	15,427	128,187	-	143,614	6,732
Due from other funds	10,401	-	-	10,401	-
	<u>89,106</u>	<u>220,481</u>	<u>13,883</u>	<u>323,470</u>	<u>74,713</u>
Noncurrent Assets:					
Advances to other funds	-	184,040	-	184,040	-
Capital assets, net of accumulated depreciation	2,104,153	658,948	-	2,763,101	29,761
	<u>2,104,153</u>	<u>842,988</u>	<u>-</u>	<u>2,947,141</u>	<u>29,761</u>
Total Assets	<u>2,193,259</u>	<u>1,063,469</u>	<u>13,883</u>	<u>3,270,611</u>	<u>104,474</u>
LIABILITIES:					
Current Liabilities:					
Due to other funds	242	31,355	-	31,597	2,508
Due to component unit	236	-	-	236	-
Deposits Payable	-	20,000	-	20,000	-
Bonds payable (current portion)	85,000	-	-	85,000	-
	<u>85,478</u>	<u>51,355</u>	<u>-</u>	<u>136,833</u>	<u>2,508</u>
Long-Term Liabilities (less current portion):					
Bonds payable	1,831,206	-	-	1,831,206	-
Total Liabilities	<u>1,916,684</u>	<u>51,355</u>	<u>-</u>	<u>1,968,039</u>	<u>2,508</u>
NET ASSETS:					
Investment in capital assets, net	187,947	658,948	-	846,895	29,761
Restricted -					
Debt Service	57,823	-	-	57,823	-
Improvements	232,944	275,193	-	508,137	-
Unrestricted					
Undesignated	(202,139)	77,973	13,883	(110,283)	72,205
Total Net Assets	<u>\$ 276,575</u>	<u>\$ 1,012,114</u>	<u>\$ 13,883</u>	<u>\$ 1,302,572</u>	<u>\$ 101,966</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Sewer	Trash	Total	Internal Service Funds
Operating Revenues:					
Charges for services -					
Quarterly fees	\$ 63,993	\$ 42,921	\$ 77,613	\$ 184,527	\$ -
Tap-in fees	755	1,010	-	1,765	-
Equipment rental charges	-	-	-	-	32,221
Other	600	1,633	-	2,233	180
	<u>65,348</u>	<u>45,564</u>	<u>77,613</u>	<u>188,525</u>	<u>32,401</u>
Operating Expenses:					
Personnel services -					
Salaries and wages	20,423	12,884	-	33,307	1,649
FICA	1,562	985	-	2,547	126
Hospitalization	5,000	6,500	-	11,500	-
Other fringe benefits	8,000	7,000	-	15,000	-
Supplies	9,557	2,010	-	11,567	11,136
Other services and charges -					
Contracted services	9,107	11,051	81,042	101,200	250
Utilities	12,388	7,328	-	19,716	-
Insurance	1,347	542	-	1,889	5,403
Repairs and maintenance	6,408	3,950	-	10,358	3,300
Equipment rental	4,228	4,682	-	8,910	-
Depreciation	49,469	26,438	-	75,907	12,256
Administration	9,000	9,000	7,000	25,000	500
Other	47	-	300	347	52
	<u>136,536</u>	<u>92,370</u>	<u>88,342</u>	<u>317,248</u>	<u>34,672</u>
Operating Loss	<u>(71,188)</u>	<u>(46,806)</u>	<u>(10,729)</u>	<u>(128,723)</u>	<u>(2,271)</u>
Non-Operating Revenues (Expenses):					
Current property tax - improvements	-	73,375	-	73,375	-
Water improvement charges	42,730	-	-	42,730	-
DWRF debt charges	122,322	-	-	122,322	-
Interest earned	1,153	4,380	628	6,161	643
Interest expense	(49,913)	-	-	(49,913)	-
	<u>116,292</u>	<u>77,755</u>	<u>628</u>	<u>194,675</u>	<u>643</u>
Net Income (Loss)	45,104	30,949	(10,101)	65,952	(1,628)
Net Assets at beginning of year	<u>231,471</u>	<u>981,165</u>	<u>23,984</u>	<u>1,236,620</u>	<u>103,594</u>
Net Assets end of year	<u>\$ 276,575</u>	<u>\$ 1,012,114</u>	<u>\$ 13,883</u>	<u>\$ 1,302,572</u>	<u>\$ 101,966</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities-Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Trash	Total	
Cash Flows From Operating Activities:					
Cash receipts from customers	\$ 65,348	\$ 45,564	\$ 77,613	\$ 188,525	\$ 180
Cash receipts from interfund services	-	-	-	-	32,221
Cash payments to suppliers	(39,844)	(23,348)	(81,342)	(144,534)	(20,267)
Cash payments for interfund services	(26,800)	(29,700)	(7,000)	(63,500)	(500)
Cash payments to employees	(20,423)	(12,884)	-	(33,307)	(1,649)
Net Cash Provided (Used) by Operating Activities	(21,719)	(20,368)	(10,729)	(52,816)	9,985
Cash Flows From Noncapital Financing Activities:					
Change in due from other funds	(10,401)	(144,500)	-	(154,901)	-
Change in due to other funds	-	10,401	-	10,401	-
Net Cash Used by Non-Capital Financing Activities	(10,401)	(134,099)	-	(144,500)	-
Cash Flows From Capital and Related Financing Activities:					
Property taxes	-	73,375	-	73,375	-
Improvement charges	42,730	-	-	42,730	-
DWRF debt charges	122,322	-	-	122,322	-
Principal payments	(80,000)	-	-	(80,000)	-
Interest payments	(49,913)	-	-	(49,913)	-
Deposits Received	-	20,000	-	20,000	-
Purchase of fixed assets	-	(79,695)	-	(79,695)	(8,775)
Net Cash Provided (Used) by Capital and Related Financing Activities	35,139	13,680	-	48,819	(8,775)
Cash Flows From Investing Activities:					
Interest earned	1,153	4,380	628	6,161	643
Sale of investments	-	-	19,540	19,540	-
Net Cash Provided by Investing Activities	1,153	4,380	20,168	25,701	643
Net Increase (Decrease) in Cash and Cash Equivalents for the year	4,172	(136,407)	9,439	(122,796)	1,853
Cash and Cash Equivalents at Beginning of Year	59,106	228,701	4,444	292,251	66,128
Cash and Cash Equivalents at End of Year	\$ 63,278	\$ 92,294	\$ 13,883	\$ 169,455	\$ 67,981
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:					
Operating loss for the year	\$(71,188)	\$(46,806)	\$(10,729)	\$(128,723)	\$(2,271)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities -					
Depreciation	49,469	26,438	-	75,907	12,256
Net Cash Provided (Used) by Operating Activities	\$(21,719)	\$(20,368)	\$(10,729)	\$(52,816)	\$ 9,985

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006**

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ <u>102</u>
LIABILITIES:	
Due to other funds	\$ <u>102</u>

The accompanying notes are an integral part of these financial statements.

COMPONENT UNITS

VILLAGE OF PORT SANILAC, MICHIGAN

COMBINING STATEMENT OF NET ASSETS DISCRETELY PRESENTED COMPONENT UNITS JUNE 30, 2006

	Downtown Development Authority	Port Authority (Harbor)	Totals
ASSETS:			
Cash and cash equivalents	\$ 93,936	\$ 3,463	\$ 97,399
Investments	-	46,643	46,643
Due from primary government	2,722	-	2,722
Capital Assets (net of accumulated depreciation) -			
Assets not being depreciated	-	37,000	37,000
Assets being depreciated	-	751,202	751,202
	<hr/>	<hr/>	<hr/>
Total Assets	96,658	838,308	934,966
	<hr/>	<hr/>	<hr/>
LIABILITIES:			
Current Liabilities			
Due to other governmental units	4,900	-	4,900
Non-current liabilities			
Due in more than one year	-	2,780	2,780
	<hr/>	<hr/>	<hr/>
Total Liabilities	4,900	2,780	7,680
	<hr/>	<hr/>	<hr/>
NET ASSETS:			
Investments in Capital Assets, net of related liabilities	-	788,202	788,202
Unrestricted	91,758	47,326	139,084
	<hr/>	<hr/>	<hr/>
Total net assets	\$ 91,758	\$ 835,528	\$ 927,286
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

COMBINING STATEMENT OF ACTIVITIES DISCRETELY PRESENTED COMPONENT UNITS FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority				
Governmental activities:				
General Government	\$ 52,338	\$ -	\$ 6,665	\$ -
Total Downtown Development Authority	<u>52,338</u>	<u>-</u>	<u>6,665</u>	<u>-</u>
Port Authority (Harbor)				
Business-Type activities:				
Public Safety	421,961	395,608	38,544	-
Interest on Long Term Liabilities	<u>4,370</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Port Authority (Harbor)	<u>426,331</u>	<u>395,608</u>	<u>38,544</u>	<u>-</u>
 Total Component Units	 <u>\$ 478,669</u>	 <u>\$ 395,608</u>	 <u>\$ 45,209</u>	 <u>\$ -</u>

General Revenues:

Property taxes

Unrestricted investment income

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Prior period adjustment

Net assets at beginning of year, as restated

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets		
Downtown Development Authority	Port Authority (Harbor)	Total
<u>\$ (45,673)</u>	<u>\$ -</u>	<u>\$ (45,673)</u>
<u>(45,673)</u>	<u>-</u>	<u>(45,673)</u>
-	12,191	12,191
-	(4,370)	(4,370)
<u>-</u>	<u>7,821</u>	<u>7,821</u>
<u>(45,673)</u>	<u>7,821</u>	<u>(37,852)</u>
70,124	-	70,124
488	366	854
<u>70,612</u>	<u>366</u>	<u>70,978</u>
<u>24,939</u>	<u>8,187</u>	<u>33,126</u>
66,819	805,341	872,160
-	22,000	22,000
<u>66,819</u>	<u>827,341</u>	<u>894,160</u>
<u>\$ 91,758</u>	<u>\$ 835,528</u>	<u>\$ 927,286</u>

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2006

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Governments also have the option of following subsequent private-sector guidance for these business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Village of Port Sanilac is one of ten Villages in Sanilac County and is located within the boundaries of Sanilac Township. The Village operates under an elected Village Council which consists of a President and six Council members. The Village provides services to its residents in many areas including law enforcement, fire protection, water, sewer and recreation.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14 the reporting entity includes both the primary government and all of its "component units". The criteria established by GASB for determining the component units include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

DISCRETELY PRESENTED COMPONENT UNITS - The component units in the financial statements include the financial data of the Village of Port Sanilac Downtown Development Authority (DDA) and the Port Authority (Harbor). They are reported as discrete columns to emphasize that they are legally separate from the Village.

The Downtown Development Authority operates with not less than eight or more than twelve members plus the Chief Executive Officer of the Village of Port Sanilac. Board members are appointed by the Village President, subject to the approval of the governing body of the Village. The Downtown Development Authority was created to develop the Downtown District.

The Port Authority (Harbor) operates with seven members appointed by the Village Council. The Port Authority (Harbor) has full charge of all matters connected with the operation, supervision and maintenance of the harbor and the public facilities therein. The Port Authority (Harbor) was created in the interest of public safety for the better protection of life and property on the waters of the harbor of Port Sanilac and for the proper development and utilization of the harbor for the public benefit.

Separate financial statements are not issued for the discretely presented component units. The following notes include the discretely presented component units with the DDA operations similar to a Special Revenue Fund and the Port Authority (Harbor) similar to an Enterprise Fund.

FISCAL YEAR ENDS – All of the Village Funds and Component Units operate and are reported on a June 30 year-end with the exception of the Port Authority (Harbor) which operates and is reported as of December 31.

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

B. Government-wide and fund financial statements –

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation –

Measurement Focus -

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

- b. All proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting –

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-like, and component unit activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements, proprietary fund statements, and the similar discretely presented component unit statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements, except for State of Michigan Act 51 revenue which is accrued.

If the Village utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

The Village reports the following major governmental funds:

General Fund – is the Village’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund – is used to account for Act 51 money and other related revenues restricted for major street maintenance and improvements.

The Village reports the following major proprietary funds:

Sewer Fund – is used to account for the operations that provide sanitary sewer service to the Village residents.

Water Fund – is used to account for the operations that provide water to the Village residents.

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Trash Fund – is used to account for the operations that provide trash collection services to the Village residents.

Additionally, the Village reports the following fund types:

Internal Service Fund – is used to account for the financing of services by one department to other departments of the Village.

Special Revenue Funds – are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal on-going operations. The principal operating revenues of the Enterprise Funds are charges to customers for sale, rent and services. Operating expenses for Enterprise Funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Cash Equivalents and Investments –

Cash equivalents are short-term investments that are readily convertible to cash. Cash equivalents consist of savings accounts recorded at cost, which approximates fair value.

Investments consisting of certificates of deposit and investment trusts are carried at cost, which approximates fair value.

Interfund Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property Tax Levy –

Property taxes levied in July of the current year of the Village are treated as revenues in the current year.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives.

<u>Primary Government</u>	<u>Years</u>
Building/improvements	5-40 years
Utility Systems	20-50
Road Systems/Other	
Infrastructure	20
Vehicles and Equipment	3-20

Compensated Absences –

Village employees are granted paid time off in varying amounts based on length of service which is fully vested when earned. Village employees are granted disability time off which can be accumulated to 240 hours maximum per employee. Upon termination, employees are paid fifty percent of their accumulated disability pay. Vacation is not paid out upon termination. All vested disability is accrued when incurred in the government-wide and proprietary fund financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates –

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgets –

Budgets are adopted on the modified cash basis. Annual appropriation budgets are adopted for the General and Special Revenue Funds.

The Village Treasurer and the Village Council Finance Committee prepare and submit their proposed operating budgets for the year commencing July 1. The budgets include proposed expenditures and resources to finance them.

Prior to July 1, the proposed budget is presented to the Village Council. The Council holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Resolution. After the budget is adopted, all amendments must be approved by the Village Council.

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

The Village's approved budgets were adopted at the activity level for the General Fund and at the function level (fund level) for the Special Revenue Funds. However, for control purposes all the budgets are maintained at the object (account) level.

The Village does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Budget amounts are reported as originally adopted, or as amended by the Village Council, during the year.

Expenditures at these legally adopted levels in excess of the amount budgeted are a violation of the Budgeting Act. During the year ended June 30, 2006, the Village (primary government) incurred expenditures in the General Fund and Special Revenue Funds which were in excess of the amounts appropriated at the activity level for the General Fund and function (fund) level for the Special Revenue Funds as follows:

<u>Fund Type/Function/Activity</u>	<u>Final Budget</u>	<u>Expended</u>	<u>Variance</u>
Primary Government –			
General Fund –			
General Government	\$ 68,000	\$ 140,510	\$ 72,510
Public Safety –			
Fire Department	23,000	280,075	257,075
Law Enforcement	63,000	100,526	37,526
Public Works	101,000	118,492	17,492
Recreation and Cultural	1,600	6,532	4,932
Debt Service	-	1,476	1,476
Special Revenue Funds –			
Major Street	33,700	72,197	38,497
County Road	38,000	63,452	25,452

Prior to June 30, the proposed budgets are presented to the Village Council. The Council holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Village Council Resolution.

The approved budgets of the Village were adopted for the General and Special Revenue Funds at the function level. These are the enacted levels under the State of Michigan Uniform Budgeting and Accounting Act and the legally adopted levels of the budget. State statutes do not require legally adopted budgets for debt service or capital projects funds.

Budgets are maintained throughout the year at the account level, to provide additional control in preventing over-expenditures at the legally adopted levels. Amendments at the function level for the General and Special Revenue Funds must be approved by the Village Council.

The Village does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

Budget amounts are reported as originally adopted and as final amended by the Village Council, during the year.

Undesignated Fund Balance Deficit -

The General Fund and the Bark Shanty Community Center Fund have an undesignated fund balance deficit of \$88,308 and \$3,812, respectively, at June 30, 2006. The General Fund deficit is primarily due to capital outlay expenditures of \$157,000 for a new fire truck that was financed by borrowing money from the sewer fund.

Unrestricted Net Assets Deficit -

The Water Fund had an unrestricted net assets deficit of \$202,139 at June 30, 2006.

NOTE 3 - DEPOSITS AND INVESTMENTS:

The carrying amount of the Village Reporting Entity's deposits and investments at June 30, 2006 is as follows:

	Primary Government	Fiduciary Fund	Component Unit	Reporting Entity
Cash on Hand –				
Petty Cash	\$ 300	\$ -	\$ 150	\$ 450
Deposits with Financial Institutions –				
Checking/Savings	409,049	102	97,249	506,400
Certificate of Deposit	123,323	-	46,643	169,966
Money Markets	5,180	-	-	5,180
	<u>537,552</u>	<u>102</u>	<u>143,892</u>	<u>681,546</u>
Investments –				
Investment Trust Funds	50,554	-	-	50,554
	<u>\$ 588,406</u>	<u>\$ 102</u>	<u>\$ 144,042</u>	<u>\$ 732,550</u>

The following is a summary of the financial statement presentation of Deposits and Investments at June 30, 2006:

	Primary Government	Fiduciary Fund	Component Unit	Reporting Entity
Reported as Cash and Cash Equivalents –				
Petty Cash	\$ 300	\$ -	\$ 150	\$ 450
Cash in Checking/Savings	409,049	102	97,249	506,400
Total Cash and Cash Equivalents	<u>409,349</u>	<u>102</u>	<u>97,399</u>	<u>506,850</u>
Reported as Investment –				
Certificates of Deposit	123,323	-	46,643	169,966
Investment Trust Funds	55,734	-	-	55,734
Total Investments	<u>179,057</u>	<u>-</u>	<u>46,643</u>	<u>225,700</u>
	<u>\$ 588,406</u>	<u>\$ 102</u>	<u>\$ 144,042</u>	<u>\$ 732,550</u>

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

The Village's investment policy primary objectives are safety, liquidity, diversification and return on investment. The Village Treasurer is responsible for the investment program.

Deposits –

Act 217 PA 1982, as amended, authorizes the Village to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, by section 21.145 and 21.146 of the Michigan Compiled Laws.

Custodial Credit Risk – Deposits – is the risk that in the event of a bank failure, the Village's deposits may not be returned.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2006, the carrying amount of the Village deposits is \$681,546, and the bank balance is \$709,814. Of the bank balance, \$378,840 is covered by Federal Depository Insurance, with the remaining \$330,974 uninsured and uncollateralized.

Investments –

Michigan Public Act 20 of 1994, as amended, authorizes the Village to invest surplus funds in bonds, securities and other direct obligations of the United States government or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association or credit union is eligible to be a depository of funds belonging to the State; bankers' acceptances of the United States banks; commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation; investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118.

The certificates of deposit, investment trust funds, and money market accounts have been reported in the financial statements as investments even though the investment trust funds and money market accounts have characteristics of demand deposit accounts in that the Village may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The reason for reporting these as investments is that it is the intent of the Village to reinvest the funds and not make regular withdrawals since the funds are part of the Village's pooled investment program.

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Custodial Credit Risk – Investments – is the risk that in the event of the failure of the counterparty, the Village's deposit or investments may not be returned. The Village's investment policy does not address credit risk.

Interest Rate Risk – Investments – is the risk that the market value of securities in the Village's portfolio will fall due to changes in market interest rate increases.

Credit Risk – Investments – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation, State laws and Village policy limit the types of investments the Village can purchase.

As of June 30, 2006, the Village of Port Sanilac had \$55,734 invested in an external investment pool. The fund was established to mainly invest in government securities. The fund complies with all the requirements of Act 20 of 1994, as amended. The Public Funds Investment Trust has an AAAM rating from Standard & Poors and an average days to maturity of 14.

Concentration of Credit Risk – Investments – is the risk of loss attributed to the magnitude of the Village's investment in a single issuer. The Village's investment policy does not address concentration of credit risk.

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

Interfund receivable and payable balances described as Due From and Due To Other Funds on the Statement of Assets and Liabilities Arising from Cash Transactions reflect amounts due from or owed to a particular fund by another fund of the Primary Government. Interfund receivable and payable balances described as Due From or Due To Primary Government or Component Units reflect amounts due from or due to either the Primary Government or Component Units. These amounts include only short-term obligations on open accounts, and not current portions of long-term loans. The composite of interfund balance at June 30, 2006 is as follows:

	<u>Receivable</u>	<u>Payable</u>
<u>Due To/From Other Funds:</u>		
<u>General Fund:</u>		
Agency Fund -		
Current Tax Fund	\$ 102	\$ -
Enterprise Fund -		
Water Fund	242	-
Sewer Fund	20,954	-
Special Revenue Funds –		
Local Street	7,238	-
Bark Shanty Community Center	6,910	620
Internal Service Fund -		
Equipment Fund	<u>2,508</u>	<u>-</u>
	<u>37,954</u>	<u>620</u>

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS – (cont'd):

	<u>Receivable</u>	<u>Payable</u>
<u>Enterprise Fund:</u>		
Water Fund -		
General Fund	-	242
Sewer Fund	10,401	-
Sewer Fund -		
General Fund	-	20,954
Water Fund	-	<u>10,401</u>
	<u>10,401</u>	<u>31,597</u>
<u>Internal Service Fund:</u>		
Equipment Fund -		
General Fund	-	<u>2,508</u>
<u>Agency Fund:</u>		
Current Tax Fund -		
General Fund	-	<u>102</u>
<u>Special Revenue Fund:</u>		
Bark Shanty Community Center -		
General Fund	620	6,910
Local Street -		
General Fund	-	<u>7,238</u>
	<u>620</u>	<u>14,148</u>
 Total Primary Government	 <u>\$ 48,975</u>	 <u>\$ 48,975</u>
 <u>Advances From/To Other Funds:</u>		
<u>Enterprise Fund:</u>		
Sewer Fund -	\$ 184,040	\$ -
General Fund	-	157,000
Bark Shanty Community Center	-	<u>27,040</u>
	<u>\$ 184,040</u>	<u>\$ 184,040</u>
 <u>Due From/To Component Units:</u>		
Water Fund -		
DDA	\$ -	\$ 236
General Fund -		
DDA	-	2,486
 <u>Due From Primary Government:</u>		
DDA -		
Water Fund	236	-
General Fund	<u>2,486</u>	<u>-</u>
 Total Reporting Entities	 <u>\$ 2,722</u>	 <u>\$ 2,722</u>

Interfund transfers for the year ended June 30, 2006 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Major Street Fund	County Road Fund	\$ 50,000
Local Street Fund	County Road Fund	<u>2,500</u>
		<u>\$ 52,500</u>

In the General Fund there is a due to and a due from the Bark Shanty Community Center. This is a result of the Recreation owing the Bark Shanty Community Center \$620, and the Bark Shanty Community Center owing Law Enforcement \$6,910.

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 5 – CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2006 was as follows:

	July 1, 2005 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2006 <u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Total capital assets, not being depreciated	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>12,000</u>
Capital assets, being depreciated:				
Buildings and improvements	530,968	13,853	-	544,821
Improvement other than buildings	14,363	-	-	14,363
Machinery and equipment	168,896	75,075	-	243,971
Vehicles	266,887	157,000	31,000	392,887
Streets	<u>58,000</u>	<u>63,323</u>	<u>-</u>	<u>121,323</u>
Total capital assets being depreciated	<u>1,039,114</u>	<u>309,251</u>	<u>31,000</u>	<u>1,317,365</u>
Less accumulated depreciation for:				
Buildings and improvements	336,668	11,313	-	347,981
Improvements other than buildings	1,077	718	-	1,795
Machinery and equipment	115,711	17,675	-	133,386
Streets	-	6,066	-	6,066
Vehicles	<u>233,314</u>	<u>11,613</u>	<u>31,000</u>	<u>213,927</u>
Total accumulated depreciation	<u>686,770</u>	<u>47,385</u>	<u>31,000</u>	<u>703,155</u>
Total capital assets being depreciated, net	<u>352,344</u>	<u>261,866</u>	<u>-</u>	<u>614,210</u>
Governmental activities capital assets, net	<u>\$ 364,344</u>	<u>\$ 261,866</u>	<u>\$ -</u>	<u>\$ 626,210</u>
Business Type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 79,695	-	\$ 79,695
Capital assets, being depreciated:				
Water System	2,304,615	-	-	2,304,615
Sewer System	1,244,799	-	-	1,244,799
Equipment	<u>17,171</u>	<u>-</u>	<u>-</u>	<u>17,171</u>
Total capital assets being depreciated	<u>3,566,585</u>	<u>-</u>	<u>-</u>	<u>3,566,585</u>
Less accumulated depreciation for:				
Water System	150,993	49,469	-	200,462
Sewer System	<u>656,279</u>	<u>26,438</u>	<u>-</u>	<u>682,717</u>
Total accumulated depreciation	<u>807,272</u>	<u>75,907</u>	<u>-</u>	<u>883,179</u>
Total capital assets being depreciated, net	<u>2,759,314</u>	<u>(75,907)</u>	<u>-</u>	<u>2,683,406</u>
Business activities capital assets, net	<u>\$ 2,759,314</u>	<u>\$ 3,788</u>	<u>\$ -</u>	<u>\$ 2,763,101</u>

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 5 – CAPITAL ASSETS – (cont'd):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 9,826
Public Safety	11,516
Public Works	24,415
Recreation and Cultural	<u>1,628</u>
Total depreciation expense-governmental activities	<u>\$ 47,385</u>
Business-type activities:	
Sewer	\$ 26,438
Water	<u>49,469</u>
Total depreciation expense-business-type activities	<u>\$ 75,907</u>

Discretely Presented Component Units

Port Authority – Harbor. Activity for the Port Authority for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 37,000	\$ -	\$ -	\$ 37,000
Capital assets, being depreciated:				
Land and building improvements	22,062	-	-	22,062
Harbor	1,101,912	103,633	-	1,205,545
Equipment	<u>50,429</u>	<u>8,620</u>	-	<u>59,049</u>
	<u>1,174,403</u>	<u>112,253</u>	-	<u>1,286,656</u>
Less accumulated depreciation for:				
Land and building improvements	9,284	1,103	-	10,387
Harbor	439,566	39,709	-	479,275
Equipment	<u>38,702</u>	<u>7,090</u>	-	<u>45,792</u>
	<u>487,552</u>	<u>47,902</u>	-	<u>535,454</u>
Net capital assets being depreciated	<u>686,851</u>	<u>64,351</u>	-	<u>751,202</u>
Total capital assets, net	<u>\$ 723,851</u>	<u>\$ 64,351</u>	<u>\$ -</u>	<u>\$ 788,202</u>

Depreciation expense for 2005 was \$47,902.

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 6 – LONG-TERM LIABILITIES:

PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term debt (including current portions) of the Primary Government for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
<u>Governmental Activities:</u>					
Note Payable	\$ -	\$ 13,000	\$ 1,167	\$ 11,833	\$ 2,418
Accrued sick and disability	<u>7,331</u>	<u>2,579</u>	<u>-</u>	<u>9,910</u>	<u>-</u>
Total Governmental Funds	<u>7,331</u>	<u>15,579</u>	<u>1,167</u>	<u>21,743</u>	<u>2,418</u>
<u>Business-type Activities:</u>					
2003 Drinking Water Revolving Fund	<u>1,996,206</u>	<u>-</u>	<u>80,000</u>	<u>1,916,206</u>	<u>85,000</u>
	<u>\$ 2,000,537</u>	<u>\$ 15,579</u>	<u>\$ 81,167</u>	<u>\$ 1,937,949</u>	<u>\$ 87,418</u>

Primary Government -

Significant details regarding outstanding long-term liabilities (including current portion) of the primary government are presented below:

Accrued Employee Sick and Disability Pay represents unpaid sick and disability due the employees of the Village upon termination of employment. As of June 30, 2006, the amount to be provided for accrued sick and disability pay was \$9,910.

In October 2005, the Village signed a bank note for \$13,000 to finance improvements to the Village Hall. The note is payable in semi-annual installments of \$1,476 including principal and interest of 4.75% through 2011. The outstanding balance as of June 30, 2006 is \$11,833.

In order to finance the cost of improvements, the Village of Port Sanilac has participated in the Drinking Water Revolving Fund through which Department of Environmental Quality Bonds have been sold in the amount of \$2,076,206. The outstanding balance as of June 30, 2006 is \$1,916,206.

Interest on the bonds shall accrue on the principal disbursed by the Drinking Water Revolving Fund to the Village from the date the principal is disbursed until paid, at the rate of 2.5% per annum, payable semi-annually. Principal payments began April 1, 2005 with amounts ranging from \$85,000-\$131,206 due annually until April 1, 2024.

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 6 - LONG-TERM LIABILITIES – (cont'd):

The annual requirements to pay the debt principal and interest outstanding are as follows:

Year Ending June 30,	Business-type Activities		Governmental Activities	
	Revolving Loans		Improvement Note	
	Principal	Interest	Principal	Interest
2007	\$ 85,000	\$ 47,905	\$ 2,418	\$ 534
2008	85,000	45,780	2,534	417
2009	85,000	43,655	2,656	296
2010	90,000	41,530	2,784	168
2011	90,000	39,280	1,441	34
2012-2016	495,000	161,026	-	-
2017-2021	595,000	94,151	-	-
2022-2024	391,206	19,590	-	-
	<u>\$ 1,916,206</u>	<u>\$ 492,917</u>	<u>\$ 11,833</u>	<u>\$ 1,449</u>

Component Unit –

The following is a summary of changes in long-term liabilities (including current portions) of the component unit for the year ended December 31, 2005:

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Port Authority (Harbor):					
1992 Marina Facility Revenue Bonds	\$ 60,000	\$ -	\$ 60,000	\$ -	\$ -
Accrued sick & disability	1,951	829	-	2,780	-
	<u>\$ 61,951</u>	<u>\$ 829</u>	<u>\$ 60,000</u>	<u>\$ 2,780</u>	<u>\$ -</u>

Significant details regarding outstanding long-term liabilities of the component unit Port Authority (Harbor) and Downtown Development Authority are presented below:

Accrued Employee Sick and Disability pay represents unpaid sick and disability due the employees of the Harbor upon termination of employment. As of December 31, 2005 the amount to be provided for accrued sick and disability pay was \$2,780.

On October 13, 1992, the Village of Port Sanilac issued \$225,000 in Marina Facility Revenue Bonds to finance the cost of improving and enlarging the public marina facility located in Port Sanilac Harbor. The bonds are fully paid off at December 31, 2005.

NOTE 7 – RESTRICTED NET ASSETS:

Primary Government –

Business-Type Activities -

Sewer	Property taxes for improvements	\$ 275,193
Water	Improvement charges	232,944
Water	DWRF Debt charges	<u>57,823</u>
		<u>\$ 565,960</u>

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 8 - EMPLOYEE PENSION PLAN:

Plan Description -

The Village of Port Sanilac participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple-employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The Village is required to contribute at an actuarially determined rate. The computed employer contribution rate for 2005/2006 ranged from 16.56% to 20.00%. The contribution requirements of plan members and the Village are established and may be amended by the Village Council, depending on the MERS contribution program adopted by the Village.

Annual Pension Costs -

For the year ended June 30, 2006, the Village's annual pension cost of \$28,587 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2003 and 2004 actuarial valuations using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year, (b) projected salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, ranging from 0% to 8.66% per year, and (c) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-4. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

Three-Year Trend Information

Fiscal Period <u>Ending</u>	Annual Pension <u>Costs (APC)</u>	Percentage of APC <u>Contribution</u>	Net Pension <u>Obligation</u>
June 30, 2004	\$ 33,904	100%	\$ -
June 30, 2005	27,542	100	-
June 30, 2006	28,587	100	-

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 8 - EMPLOYEE PENSION PLAN – (cont'd):

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial (AAL) Entry Age	Unfunded (Overfunded) Accrued Liability (UAAL)	Funded Ratio (AAL)	Covered Payroll	UAAL as a % of Covered Payroll
December 31,	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)(c)
2003	\$ 201,768	\$ 488,092	\$ 286,324	41%	\$ 169,092	169%
2004	245,787	550,862	305,075	45	182,658	167
2005	291,231	601,435	310,204	48	190,378	163

NOTE 9 - DEFERRED COMPENSATION:

The Village offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

A trust, custodial account or annuity contract exists. Assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors, nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

As part of its fiduciary role, the Village has an obligation of due care in selecting the third party administrator. The Village believes it has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

NOTE 10 – PRIOR PERIOD ADJUSTMENT:

A prior period adjustment of \$22,000 was recorded in the Port Authority (Harbor) component unit to record additional capital assets.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 177,112	\$ 177,112	\$ 174,650	\$(2,462)
Intergovernmental -				
Federal/State	61,388	61,388	122,878	61,490
Local	17,000	17,000	17,650	650
Charges for services	1,000	1,000	48,924	47,924
Fines and forfeits	4,000	4,000	7,396	3,396
Interest and rents	3,300	3,300	7,000	3,700
Other	12,500	12,500	20,137	7,637
	<u>276,300</u>	<u>276,300</u>	<u>398,635</u>	<u>122,335</u>
Expenditures:				
General Government	207,000	207,000	232,160	(25,160)
Less: Reimbursement from other funds	<u>(139,000)</u>	<u>(139,000)</u>	<u>(91,650)</u>	<u>(47,350)</u>
Total General Government	<u>68,000</u>	<u>68,000</u>	<u>140,510</u>	<u>(72,510)</u>
Public Safety -				
Fire department	23,000	23,000	280,075	(257,075)
Law enforcement	63,000	63,000	100,526	(37,526)
	<u>86,000</u>	<u>86,000</u>	<u>380,601</u>	<u>(294,601)</u>
Public Works -				
Department of public works	<u>101,000</u>	<u>101,000</u>	<u>118,492</u>	<u>(17,492)</u>
Recreational and Cultural-				
Parks and recreation	<u>1,600</u>	<u>1,600</u>	<u>6,532</u>	<u>(4,932)</u>
Debt Service	<u>-</u>	<u>-</u>	<u>1,476</u>	<u>(1,476)</u>
Total Expenditures	<u>256,600</u>	<u>256,600</u>	<u>647,611</u>	<u>(391,011)</u>
Revenues under expenditures	<u>19,700</u>	<u>19,700</u>	<u>(248,976)</u>	<u>(268,676)</u>
Other Financing Sources:				
Note proceeds	-	-	13,000	13,000
Gain on sale of equipment	<u>-</u>	<u>-</u>	<u>11,000</u>	<u>11,000</u>
	<u>-</u>	<u>-</u>	<u>24,000</u>	<u>24,000</u>
Net Change in Fund Balance	19,700	19,700	(224,976)	(244,676)
Fund Balance at beginning of year	<u>136,668</u>	<u>136,668</u>	<u>136,668</u>	<u>-</u>
Fund Balance (Deficit) at end of year	<u>\$ 156,368</u>	<u>\$ 156,368</u>	<u>\$(88,308)</u>	<u>\$(244,676)</u>

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS BUDGET AND ACTUAL - MAJOR STREET FUND FOR THE YEAR ENDED JUNE 30, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental -				
State	33,000	33,000	32,608	(392)
Local	-	-	2,805	2,805
Interest	700	700	1,148	448
Other	-	-	58	58
Total Revenues	<u>33,700</u>	<u>33,700</u>	<u>36,619</u>	<u>2,919</u>
Expenditures:				
Public Works-				
Salaries	9,000	9,000	3,633	5,367
FICA	600	600	278	322
Hospitalization	5,000	5,000	5,000	-
Other fringe benefits	6,500	6,500	6,000	500
Supplies	2,500	2,500	1,023	1,477
Legal and professional	250	250	-	250
Contracted services	500	500	450	50
Insurance and bonds	500	500	405	95
Repairs and maintenance	-	-	50,093	(50,093)
Equipment rental	6,000	6,000	3,769	2,231
Administration	2,500	2,500	1,500	1,000
Miscellaneous	350	350	46	304
Total Expenditures	<u>33,700</u>	<u>33,700</u>	<u>72,197</u>	<u>(38,497)</u>
Revenues under expenditures	-	-	(35,578)	(35,578)
Other Financing Sources:				
Transfers in	-	-	50,000	50,000
Net Change in Fund Balance	-	-	14,422	14,422
Fund Balance at beginning of year	<u>28,646</u>	<u>28,646</u>	<u>28,646</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 28,646</u>	<u>\$ 28,646</u>	<u>\$ 43,068</u>	<u>\$ 14,422</u>

SUPPLEMENTARY INFORMATION

VILLAGE OF PORT SANILAC, MICHIGAN

COMBINING BALANCE SHEET - MODIFIED CASH BASIS

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

	Local Street	County Road	South Ramp	Bark Shanty Community Center	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 10,603	\$ 67,489	\$ 10,730	\$ 29,518	\$ 118,340
Investments	10,756	-	-	-	10,756
Due from state	3,049	-	-	-	3,049
Due from other funds	-	-	-	620	620
Total Assets	<u>\$ 24,408</u>	<u>\$ 67,489</u>	<u>\$ 10,730</u>	<u>\$ 30,138</u>	<u>\$ 132,765</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Due to other funds	\$ 7,238	\$ -	\$ -	\$ 6,910	\$ 14,148
Advance from other funds	-	-	-	27,040	27,040
Total Liabilities	<u>7,238</u>	<u>-</u>	<u>-</u>	<u>33,950</u>	<u>41,188</u>
Fund Balance:					
Unreserved - Undesignated	<u>17,170</u>	<u>67,489</u>	<u>10,730</u>	<u>(3,812)</u>	<u>91,577</u>
	<u>\$ 24,408</u>	<u>\$ 67,489</u>	<u>\$ 10,730</u>	<u>\$ 30,138</u>	<u>\$ 132,765</u>

VILLAGE OF PORT SANILAC, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			Bark Shanty Community Center	Total Nonmajor Governmental Funds
	Local Street	County Road	South Ramp		
Revenues:					
Taxes	\$ 26,090	\$ -	\$ -	\$ 24,197	\$ 50,287
Intergovernmental -					
State Highway Act 51	18,464	-	-	-	18,464
Local	-	43,871	-	-	43,871
Interest and rent	995	-	190	7,421	8,606
Other	69	-	-	-	69
Total Revenues	<u>45,618</u>	<u>43,871</u>	<u>190</u>	<u>31,618</u>	<u>121,297</u>
Expenditures:					
Current -					
Public Works	38,116	10,952	-	-	49,068
Recreation and Cultural	-	-	3,926	26,218	30,144
Total Expenditures	<u>38,116</u>	<u>10,952</u>	<u>3,926</u>	<u>26,218</u>	<u>79,212</u>
Revenues over expenditures	<u>7,502</u>	<u>32,919</u>	<u>(3,736)</u>	<u>5,400</u>	<u>42,085</u>
Other Financing Sources (Uses):					
Transfer in	2,500	-	-	-	2,500
Transfers out	-	(52,500)	-	-	(52,500)
	<u>2,500</u>	<u>(52,500)</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>
Net Change in Fund Balances	10,002	(19,581)	(3,736)	5,400	(7,915)
Fund Balances at beginning of year	<u>7,168</u>	<u>87,070</u>	<u>14,466</u>	<u>(9,212)</u>	<u>99,492</u>
Fund Balances at end of year	<u>\$ 17,170</u>	<u>\$ 67,489</u>	<u>\$ 10,730</u>	<u>\$ (3,812)</u>	<u>\$ 91,577</u>

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE MODIFIED CASH BASIS BUDGET AND ACTUAL - LOCAL STREET FUND FOR THE YEAR ENDED JUNE 30, 2006

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Property taxes	\$ 26,885	\$ 26,090	\$(795)
Intergovernmental -			
State Highway Act 51	17,500	18,464	964
Interest	700	995	295
Other	-	69	69
	<u>45,085</u>	<u>45,618</u>	<u>533</u>
Expenditures:			
Public Works -			
Salaries	9,000	5,047	3,953
FICA	600	386	214
Hospitalization	5,000	5,000	-
Other fringe benefits	6,900	6,000	900
Supplies	4,500	4,692	(192)
Legal and professional	250	-	250
Contracted services	500	450	50
Insurance and bonds	500	405	95
Repairs and maintenance	4,000	9,591	(5,591)
Equipment rental	7,500	4,981	2,519
Administration	1,500	1,500	-
Miscellaneous	4,835	64	4,771
	<u>45,085</u>	<u>38,116</u>	<u>6,969</u>
Revenues over expenditures	-	7,502	7,502
Other Financing Sources:			
Transfers in	-	2,500	2,500
Net Change in Fund Balance	-	10,002	10,002
Fund Balance at beginning of year	<u>7,168</u>	<u>7,168</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 7,168</u>	<u>\$ 17,170</u>	<u>\$ 10,002</u>

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE MODIFIED CASH BASIS BUDGET AND ACTUAL - COUNTY ROAD FUND FOR THE YEAR ENDED JUNE 30, 2006

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental -			
Local County Millage	\$ 38,000	\$ 43,871	\$ 5,871
Expenditures:			
Public Works -			
Repairs and maintenance	38,000	10,852	27,148
Contracted services	-	100	(100)
	<u>38,000</u>	<u>10,952</u>	<u>27,048</u>
Revenues over expenditures	<u>-</u>	<u>32,919</u>	<u>32,919</u>
Other Financing Uses:			
Transfers out	<u>-</u>	<u>(52,500)</u>	<u>(52,500)</u>
Net Change in Fund Balance	-	(19,581)	(19,581)
Fund Balance at beginning of year	<u>87,070</u>	<u>87,070</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 87,070</u></u>	<u><u>\$ 67,489</u></u>	<u><u>\$(19,581)</u></u>

VILLAGE OF PORT SANILAC, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
MODIFIED CASH BASIS
BUDGET AND ACTUAL - SOUTH RAMP FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ -	\$ 190	\$ 190
Expenditures:			
Recreation and Cultural -			
Contracted Services	9,500	3,926	5,574
Miscellaneous	4,933	-	4,933
	<u>14,433</u>	<u>3,926</u>	<u>10,507</u>
Revenues under expenditures	(14,433)	(3,736)	10,697
Fund Balance at beginning of year	<u>14,466</u>	<u>14,466</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 33</u></u>	<u><u>\$ 10,730</u></u>	<u><u>\$ 10,697</u></u>

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE MODIFIED CASH BASIS BUDGET AND ACTUAL - BARK SHANTY COMMUNITY CENTER FOR THE YEAR ENDED JUNE 30, 2006

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 24,927	\$ 24,197	\$(730)
Interest	100	-	(100)
Rentals	5,500	7,421	1,921
	<u>30,527</u>	<u>31,618</u>	<u>1,091</u>
Expenditures:			
Recreation and Cultural -			
Salaries	3,500	3,761	(261)
FICA	200	288	(88)
Supplies	600	1,107	(507)
Contracted services	250	50	200
Utilities	6,500	7,381	(881)
Repairs and maintenance	700	10,862	(10,162)
Equipment rental	2,500	1,883	617
Miscellaneous	16,277	886	15,391
	<u>30,527</u>	<u>26,218</u>	<u>4,309</u>
Revenues over expenditures	-	5,400	5,400
Fund Balance at beginning of year	<u>(9,212)</u>	<u>(9,212)</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$(9,212)</u></u>	<u><u>\$(3,812)</u></u>	<u><u>\$ 5,400</u></u>

FIDUCIARY FUND

VILLAGE OF PORT SANILAC, MICHIGAN

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
Assets:				
Cash and cash equivalents	\$ 102	\$ 368,761	\$ 368,761	\$ 102
Total Assets	<u>\$ 102</u>	<u>\$ 368,761</u>	<u>\$ 368,761</u>	<u>\$ 102</u>
Liabilities:				
Due to other funds and component units	102	368,761	368,761	102
Total Liabilities	<u>\$ 102</u>	<u>\$ 368,761</u>	<u>\$ 368,761</u>	<u>\$ 102</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the President and Members
Of the Village Council
Village of Port Sanilac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Port Sanilac, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon, dated August 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Village of Port Sanilac, Michigan, prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Port Sanilac, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Port Sanilac, Michigan's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described as follows:

Controls over Utility Billings and Receivables

At the current time, the same individual inputs meter readings, mails out billings, collects cash receipts and credits customer accounts. We understand that in small offices it is very difficult to separate accounting functions.

We recommend that the duties be segregated as much as possible to improve controls.

Controls over Cash Accounts

At the current time cash is maintained by individuals separate from the Village offices for the DDA and Volunteer Firefighters fund along with the receipt and disbursement records. As a result, the internal control of having an individual perform bank reconciliations that does not also perform the duties of preparing the financial records is not in place.

We recommend that it be considered to have the bank reconciliations performed by someone in the Village office to allow for increased controls.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable insurance about whether the Village of Port Sanilac, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of the Village of Port Sanilac in a separate letter dated August 9, 2006.

This report is intended solely for the information and use of the management and the Village Council of Port Sanilac, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

August 9, 2006



MANAGEMENT LETTER

To the President and Members
of the Village Council
Village of Port Sanilac
Port Sanilac, Michigan

We have recently completed our audit of the basic financial statements (modified cash basis) of the Village of Port Sanilac for the year ended June 30, 2006. As noted in our *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, we noted no matters involving the internal control over financial reporting and compliance and other matters, that we considered to be material weaknesses; however, there were two reportable conditions that were required to be reported under *Government Auditing Standards*.

The following recommendations are made for your consideration to enhance accounting and administrative controls:

Controls over the Budgeting Process.

As noted in the audited financial statements, some of the expenditures of the Village exceed the amount appropriated.

Michigan Public Act 621 of 1978 Sec. 18, as amended, provides that a Village shall adopt formal budgets for the General and Special Revenue Funds and shall not incur expenditures in excess of the amounts appropriated.

The Village has established procedures to detect such violations; however, there were instances where overages occurred.

Budget amendments should be made to cover any expenditures in excess of the amounts appropriated with all budget amendments approved by Village Council prior to the end of the fiscal year.

Proper documentation should be maintained for all employees.

As you are aware, employers are required to obtain and keep on file Form I-9 for all employees hired after November 6, 1986. During the audit we noted several employees who did not have the Form I-9 on file. We recommend the Form I-9 be completed at the time of hire for all new employees, and current payroll files be reviewed for missing information.

All journal entries should have approval and be properly documented.

Lack of a procedure that require all journal entries be approved allows for the possibility of inaccurate or fraudulent financial reporting. While we noted no discrepancies in the items we examined, we recommend that all journal entries be approved.

Controls over Allocation of Administrative Expenditures.

When preparing an allocation plan for central service costs, two specific items have to be identified – the cost that is central service in nature and the basis to be used to allocate the central service cost.

We noted that the Village allocates administrative expenditures; however, we believe that the method of allocation should be reviewed to determine that all the administrative costs that are central service in nature are included in the plan and the basis for allocation is readily available and verifiable.

If this cost allocation criteria is followed, the Village will have support that the costs charged to the various funds are reasonable and equitable.

These observations were considered in determining the nature, timing and extent of the audit tests applied on our audit of the June 30, 2006 financial statements. We have not considered internal control since the date of our report. It is always important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended for the information of the management and members of the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation of the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvire Whipple".

August 9, 2006